

Village of Rushville

Board Oversight and Information Technology

AUGUST 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Rushville

Audit Objectives

- Determine whether the Board provided adequate oversight over the Village's financial operations.
- Determine whether Village officials adequately safeguarded Information Technology (IT) assets.

Key Findings

The Board did not:

- Annually audit the Clerk-Treasurer's records and report or conduct a thorough audit of claims.
- Ensure investments were made in compliance with New York State General Municipal Law (GML).¹ As a result, the cemetery fund incurred a loss of approximately \$62,000.
- Designate an official to certify payroll.
- Develop proper IT controls.

Key Recommendations

- Annually audit the Clerk-Treasurer's records and report.
- Conduct a thorough audit of claims.
- Complete payroll certifications.
- Invest money as allowed by law.
- Develop and implement IT policies and procedures.

Village officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Village of Rushville (Village) is located in the Town of Potter in Yates County and the Town of Gorham in Ontario County. The Village is governed by an elected Board of Trustees (Board), composed of four Trustees and the Mayor.

The Board is the legislative body responsible for oversight and general management of financial operations. The Mayor is the chief executive officer responsible for day-to-day management under the Board's direction. The Clerk-Treasurer is the chief fiscal officer responsible for receiving, disbursing and maintaining custody of money, preparing financial reports and maintaining accounting records.²

Quick Facts

Employees	10
Population	700
2017-18 Appropriations	\$861,233

Audit Period

June 1, 2016 – April 5, 2018

¹ New York General Municipal Law (GML), Section 11

² Two individuals served in this position during our audit period. One Clerk-Treasurer served from June 1 through June 6, 2016 and the Board appointed another Clerk-Treasurer who served for the remainder of our audit period.

Board Oversight

What is Adequate Oversight of Financial Operations?

The board is responsible for overseeing and managing financial operations and ensuring that policies and procedures are in place to safeguard village resources. To do this, New York State Village Law³ (Village Law) requires the board to annually audit the clerk-treasurer's records and report, or cause such an audit, to ensure money is properly accounted for. Additionally, the board should comply with Village Law⁴ by auditing claims before payment. To properly approve claims for payment, the board must ensure that all claims contain sufficient documentation to determine whether the nature of purchases and the amounts represent actual and necessary expenditures.

GML⁵ requires a board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. GML requires that these items be procured in a manner to assure the prudent and economical use of the taxpayer's money.

An important review component over payroll is the requirement for a village official to certify the payroll,⁶ which helps ensure that the employees included on the payroll have appropriately performed their duties. By certifying the payroll, officials attest to the payroll's validity and authorize payment to those employees.

GML authorizes villages to make certain temporary investments of money not required for immediate expenditure.⁷ It also requires each village to adopt an investment policy, which must include, among other things, a list of permitted types of investments for the village.⁸ The board is responsible for ensuring that the village invests in eligible securities and adopting an investment policy as required, which is restrictive and emphasizes safety and liquidity over yield.

Completing bank reconciliations ensures the timely identification and documentation of differences between the recorded cash balances and those reported by the bank. If the board cannot adequately segregate duties in the clerk-treasurer's office, compensating controls should be developed to ensure a proper bank reconciliation review.

3 New York Village Law (Village Law), Section 4-408

4 Village Law, Section 5-524. While payments for public utility services, postage, freight and express charges may be paid in advance of audit, these claims should be audited at the next regular board meeting.

5 GML, Section 104-b

6 Certifying the payroll includes reviewing payments for accuracy, then signing and dating the payroll to indicate it has been reviewed.

7 GML Section 11 applies to money in the custody of village officers, except when the investment of particular money is otherwise provided for by law, such as money held as a true trust. Money held as a trust would be invested in accordance with the "prudent investor" provisions of the Estates, Powers and Trusts Law, Section 11.

8 GML, Section 39. A village's investment policy need not list all the type of investments permitted under the GML.

The Board Has Not Provided Adequate Oversight

The Board did not adequately oversee financial affairs and safeguard resources. Key financial duties were not sufficiently segregated, and the Board did not implement compensating controls such as providing additional oversight. The lack of oversight resulted in control weaknesses that increase the risk of errors or misuse of resources.

The Board did not annually audit, or hire an independent public accountant to audit, the Clerk-Treasurer's records and report. Board members indicated they were unaware of this requirement.⁹ We found several accounting errors in the Clerk-Treasurer's records at the end of fiscal year 2016-17. For example, the Clerk-Treasurer posted a journal entry in reverse, resulting in a \$135,000 accounting error at the end of 2016-17. Allowing errors to go undetected and uncorrected can result in decisions being made with incorrect information. Had the Board performed an annual audit, it likely could have found and addressed many of the errors and discrepancies.

Furthermore, the Board did not develop and adopt adequate policies and procedures over procurement and purchase cards. For example, the procurement policy did not address requests for proposals or exceptions to competitive bidding (e.g., the use of other government contracts or emergency situations) and the purchase card policy improperly authorized the Clerk-Treasurer to pay the related bills before audit and approval.

Claims – The Board did not complete a thorough and deliberate claims audit. The Clerk-Treasurer prepared an abstract (a list of all claims being presented for audit and approval). Each Board member was provided with a copy of the abstract before the Board meeting and at the meeting may ask the Mayor and/or Clerk-Treasurer questions before approving the abstract for payment. However, the Board did not routinely review individual claims and supporting documentation with the abstract.¹⁰

We reviewed all 34 claims that cleared the consolidated checking account in November 2017 and an additional eight claims judgmentally selected totaling \$63,055.¹¹

9 Refer to Office of the State Comptroller's (OSC's) Local Government Management Guide (LGMG) entitled *Fiscal Oversight Responsibilities of the Governing Board* available at www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf

10 Refer to OSC's LGMG entitled *Improving the Effectiveness of Your Claims Auditing Process* available at: www.osc.state.ny.us/localgov/pubs/lgmg/claimsauditing.pdf

11 See Appendix B for information on our sampling methodology.

The Clerk-Treasurer:

- Paid eight claims totaling \$12,743 (20 percent) before audit, including purchase card¹² balances totaling \$5,971 and a lawnmower totaling \$3,700.
- Paid claims for nine purchases totaling \$1,939 without proper supporting documentation. These included seven purchases totaling \$1,656 that were made using a purchase card.¹³
- Overpaid five claims by \$697, which included overpayments for conferences (\$434), water chemicals (\$153) and other miscellaneous expenditures (\$110). After we notified the Clerk-Treasurer, she contacted the vendors and received a refund totaling \$388 in addition to statement credits for future bills.
- Paid sales tax totaling \$204 on 10 purchases.¹⁴ Upon notifying the Clerk-Treasurer, she was able to get a refund from one vendor totaling \$88.

In addition, Village officials did not purchase office supplies from a New York State Office of General Services (OGS) contract vendor. For example, we reviewed two months of purchases from an office supply store totaling approximately \$450 and found that officials could have saved \$170 if they had purchased the same items from the OGS approved vendor. Upon notifying the Clerk-Treasurer of OGS contract, she registered the Village and began purchasing from them. Further, the Village was not receiving the OGS contract price from their gasoline vendor. Upon notifying the vendor of this oversight, the Village received notice that their account would be credited for approximately \$3,600.

Payroll – The Clerk-Treasurer performed incompatible duties without sufficient oversight, such as, entering employees’ work hours into a spreadsheet that is emailed to the payroll vendor, reviewing the payroll report, approving the payroll report, making bank transfers and signing payroll checks. The Clerk-Treasurer was solely responsible for the payroll process after time cards were approved by the Mayor.

We reviewed the 2016-17 payroll and leave records for three full-time employees and one part-time employee and found the following discrepancies:

- The Clerk-Treasurer:¹⁵
 - Paid the three full-time employees and one part-time employee a combined \$7,500 more than was approved in the salary schedule in the adopted 2016-17 budget.

12 These purchases were for items such as office supplies, books, conference expenses and sidewalk supplies.

13 Card purchases included payments for conferences, postage and library expenditures.

14 Sales tax was collected on purchases for water plant supplies, zoning supplies, a printer, conferences, a book and gasoline.

15 The second transaction on this list was handled by the first Clerk-Treasurer during the audit period. The rest of these transactions were handled by the second Clerk-Treasurer.

-
- Made an unsupported payment to an employee for a health savings account totaling \$1,000.
 - Paid employees for leave time that they did not have totaling \$401 because of inaccurate leave records.
 - Did not properly deduct an employee's share of dental plan contributions, resulting in an extra cost to the Village of \$241.
 - Overpaid herself by \$180 for seven hours of holiday leave, in a pay period that did not contain any holidays, and three hours of sick time for which she did not use any accrued sick leave.
 - Did not use a proper cut-off for payroll at year-end. As a result, employees were paid at their 2017-18 pay rates for eight days of 2016-17 resulting in \$147 in overpayments.

Investments – The Board adopted an investment policy, but it was not always followed. As a result, some cemetery fund money was placed in investments not authorized by GML.¹⁶ For example, an investment in a leasing fund resulted in a loss of about \$62,000.¹⁷ Current Village officials believed that the other cemetery fund investments were also in unnecessarily risky holdings. Therefore, they withdrew the funds, closed that account and moved the money into a new account at the Village's bank. However, some investments included in their new portfolio are also not authorized by GML (e.g., corporate bonds, mutual funds, bonds of other states).¹⁸

Bank Reconciliations – Before December 1, 2017, a certified public accounting firm (Firm) completed the bank reconciliations. However, the Firm did not provide these monthly reconciliations to Village officials for their review and records. The Clerk-Treasurer requested the reconciliations from the Firm upon our request. However, the Firm only provided reconciliations for the specific months we requested. Because these records belong to the Village, this information should be obtained, reviewed and retained by the Clerk-Treasurer at the Village offices. Further, if officials had reviewed the Firm's work they may have identified that one bank account was excluded from the reconciliations.

Beginning on December 1, 2017 the Clerk-Treasurer took over responsibility for completing the reconciliations. However, the Firm did not provide her with the entries required to clear the reconciling items contained in the November

¹⁶ In our view, the money in question was not held by the Village as a trust.

¹⁷ The fund in which the investment was made was the subject of a cease and desist order from the U.S. Securities and Exchange Commission (SEC), relating to the reporting of financial results (Refer to the SEC report Administrative Proceeding File No. 3-17283)

¹⁸ Refer to the New York State Office of the State Comptroller's Opinion 87-14, concerning investments in mutual funds by local governments under GML, Section 11. In addition, Article 8, section 1 of the New York State Constitution prohibits villages from becoming the owner of stock in a private corporation.

2017 reconciliation and the Clerk-Treasurer struggled to prepare the ensuing monthly reconciliations. As a result, as of the end of our audit period, the bank reconciliation preparation was several months behind. When bank reconciliations are not completed in a timely manner, officials cannot ensure that the records are accurate and up-to-date.

What Do We Recommend?

The Board Should:

1. Annually audit, or hire an independent public accountant to audit, the Clerk-Treasurer's records and annual financial report. The audit's results should be documented in the Board minutes.
2. Amend the procurement and purchase card policies to address exceptions to competitive bidding and comply with relevant laws.
3. Ensure that investment practices provide for the legality, safety and liquidity of investments, prudently balanced against yield.
4. Thoroughly audit all claims before payment and ensure that all claims contain sufficient supporting documentation before authorizing payment.
5. Review prior claims and payrolls and seek reimbursements for any overpayments.
6. Ensure that a payroll certification is completed by a designated official other than the Clerk-Treasurer before finalizing the payroll.
7. Require bank reconciliations to be completed in a timely manner and provided to the Board or other designated official for review.

The Clerk-Treasurer should:

8. Complete bank reconciliations in a timely manner.
9. Periodically provide reconciliations and supporting documentation to the Board or other designated official for independent review.

Information Technology

Village officials use IT to initiate, process, record and report transactions. Officials also rely on IT systems for Internet access, e-mail and maintaining financial information. Village officials use an internal network that allows employees to share and access electronic data and computer resources. Officials pay an IT consultant to manage their network upon request. The consultant assists officials with setting up new computers and troubleshooting problems. If IT systems are compromised, the results could range from an inconvenience to a catastrophe and could require extensive effort and resources to evaluate and repair.

How Should IT Data Be Safeguarded?

An effective process for safeguarding the IT system includes an acceptable computer use policy that defines the procedures for computer, Internet and email use and holds users accountable for properly using and protecting resources. The acceptable use policy should also include IT security awareness training requirements for employees.

New York State Technology Law¹⁹ requires villages to have a breach notification policy that requires notification be given to certain individuals in the event of a system security breach, as it relates to private information. The policy should detail how officials would notify individuals whose private information was, or is reasonably believed to have been, acquired without valid authorization. The disclosure should be made in the most expedient time possible consistent with legitimate needs of law enforcement or any measure necessary to determine the breach's scope and restore data system integrity. Finally, all IT policies and procedures should be periodically reviewed and updated to reflect changes in technology and the computing environment.

The Board Did Not Adopt Adequate Security Policies and Procedures

The Board did not adopt an acceptable use policy and provide security awareness training to staff. Additionally, it did not adopt a breach notification policy. Therefore, if private information is compromised, Village officials and employees may not be prepared to notify affected individuals.

While IT policies will not guarantee the system's safety, a lack of appropriate policies significantly increases the risk that data, hardware and software systems may be lost or damaged by inappropriate use or access. Without formal policies that explicitly convey appropriate computer use and practices to safeguard data, officials cannot ensure that employees understand their roles and responsibilities.

¹⁹ New York State Technology Law, Section 208

Why Should Officials Adopt a Disaster Recovery Plan?

A disaster recovery plan provides a framework for reconstructing vital operations to resume time-sensitive operations and services after a disaster. Disasters may include any sudden, catastrophic event²⁰ that compromises the availability or integrity of an IT system and data. Typically, a disaster recovery plan includes an analysis of business processes and continuity needs, disaster prevention instructions, specific roles of key individuals and precautions needed to maintain or quickly resume operations. Additionally, a disaster recovery plan should include backup procedures and periodic backup testing to ensure they will function as expected.

Officials Did Not Implement a Disaster Recovery Plan

Village officials did not develop and implement a disaster recovery plan to address potential disasters. Consequently, in the event of a disaster, officials do not have guidelines to minimize or prevent the loss of equipment and data or to appropriately recover data. The Clerk-Treasurer told us she backed up some of her data periodically, but did not test it to ensure it could be recovered. Other Village computers were not backed up. Without a disaster recovery plan and regular backup procedures, officials could lose important financial and other data and suffer a serious interruption to operations, such as not being able to process checks to pay vendors or appropriately bill for water and sewer services.

What Do We Recommend?

The Board should:

10. Develop, adopt and implement acceptable computer use and breach notification policies and a disaster recovery plan.
11. Periodically review and update all IT policies and procedures to reflect changes in technology and the computing environment.
12. Provide employees with IT security awareness training.

Village officials should:

13. Ensure IT backup procedures are in place and the backups function properly.

²⁰ Such as fire, computer virus or inadvertent employee action.

Appendix A: Response From Village Officials

Village of Rushville Incorporated April 24, 1866

1 South Main Street, PO Box 51
Rushville, New York 14544
Tel (585) 554-3415 Fax (585) 554-4885
TDD (800) 662-1220
www.villageofrushville.com



John Sawers, Mayor
Joanne Burley, Clerk-Treasurer
Arthur Rilands, Public Works Supervisor

August 13, 2018

Office of the State Comptroller
The Powers Building
16 West Main Street
Suite 522
Rochester, NY 14614

Dear Auditors:

We received our 2018 Report of Examination for the Village of Rushville on August 1, 2018 during our exit discussion. We would like to thank your staff for making this audit an experience that was very helpful to our staff at the Village. Please accept this letter as our official written audit response.

We acknowledge the key findings the auditors found during their audit regarding the Clerk-Treasurer's records, the investments and the IT controls.

We appreciate the time that was put into this audit and we will compile our Action Plan and have it to you with the 90 days.

Sincerely,

Joanne Burley
Clerk/Treasurer

John Sawers
Mayor

"This institution is an equal opportunity provider, and employer.
To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights,
1400 Independence Avenue, S.W., Washington, D.C. 20250-9410,
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)."

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and employees and reviewed Board minutes, policies and procedures and the employee handbook to gain an understanding of Village operations, IT controls and the IT environment.
- We tested all claims that cleared the Village's consolidated checking account in November 2017 and a judgmental sample of an additional eight claims. We selected November 2017 because it was before we notified Village officials of our audit. We based our selection of the other eight claims on the payee (such as Village officials, credit card and petty cash) and the amounts paid.
- We tested payroll for 2016-17. We judgmentally selected 2016-17 because it was the most recent fully completed fiscal year. We compared the salary schedule in the Board-adopted budget to employees pay. We also compared their payroll to the leave records and timecards and time sheets. Lastly, we verified withholdings for employee health insurance benefits.
- We reviewed investment statements for compliance with statutory requirements and monetary losses.
- We reviewed bank reconciliations for October and November 2017. We judgmentally selected these two months because they occurred in the period before our audit notification to Village officials. We also reviewed activity in December 2017 because the Clerk-Treasurer was working on this reconciliation during our audit fieldwork.
- We reviewed journal entries for December 2017. We selected this month because the bank account had not been reconciled.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

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ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

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